

OSU Federal  
*Your Community Credit Union™*

October 10, 2007

Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Re: Comment on Proposed Changes to Regulation Z

To Whom It May Concern,

We appreciate the opportunity to comment on the proposed open-end lending changes to Regulation Z. Many of the proposed changes should benefit consumers through enhanced disclosure and can be accomplished with reasonable adjustment by creditors.

However, in our opinion, several proposed changes will not accomplish the Board of Governors (Board) stated goal: "To improve the effectiveness of the Regulation Z disclosures that must be provided to consumers for open-end accounts." Therefore, we are confining our comments to those that have the most impact upon our ability as a federally chartered credit union to serve our community field of membership.

**Official Staff Interpretation §226.2(a)**

Proposed amendments to the staff commentary concerning the interpretation of open-end lending will have a harsh effect on credit unions, but more imperatively on credit union members who use multi-featured loan plans. Credit unions have relied upon 25 years of unchanged interpretation for the operation of their lending practices. We currently serve over 50,000 consumers/members with our multi-featured open-end lending plan. We estimate well over 80% of our members would be harmed by the proposed change.

The Federal Register discussion of the Proposed Rules states the Board is concerned with the current commentary guidance and offers a rationale for change. However, this appears based on a philosophical stance rather than a practical application and knowledge of the working multi-featured plan.

The Board does not state why a closed-end disclosure would be more meaningful or would better inform consumers over the disclosures of the multi-featured plan. Most importantly, the Proposed Rule discussion does not provide a persuasive argument that consumers would use a closed-end disclosure to make better borrowing decisions or cause them to reconsider or alter a particular loan plan or product.

The Board needs to consider the adverse effect a change in interpretation will have on consumers who are used to and understand the present multi-featured plan. Many consumers/members appreciate the convenience and speedy service multi-featured open-end plans allow. It can be argued many consumers choose credit unions as their lender of choice because we have been proactive in using the multi-featured open-end lending plan as opposed to closed-end credit.

Our members acknowledge a master open-end disclosure agreement at the time of establishing the lending relationship. Thereafter, they initiate and receive credit in a way that suits them. Reinterpreting the definition of open-end lending will force us to restrict this convenience. A recent example illustrates the value of the multi-featured plan. A local university student joined our membership a few years ago. At the time of joining, he signed the master credit agreement covering our multi-featured plan. He and his family subsequently moved to the East Coast for employment reasons. Recently, his mother, who lives in Oregon, became very ill. Our member had to purchase emergency airline tickets for the trip back, but he did not have the money available. Desperate, he contacted us for help. Because of the multi-featured loan plan, we were able to do an immediate hassle-free increase to his loan without the requirement of additional disclosures and signatures; thereby, solving his ticket purchase problem and enabling him to return to Oregon without delay.

If we need to revert to closed-end lending, members will need to come into a branch or handle the loan transaction through the mail or by fax. This added processing time would have been unacceptable in the above example.

Electronic means exist; but, not all credit unions have the capability of handling such transactions in a secure environment. Even with the right technology and operational capacity, the added cost of operations would be considerable. To illustrate: Just to analyze the implications of the Proposed Rule change on our credit union, we estimate it would cost us approximately \$13,767 for 120 hours of executive staff time. This use of time also represents lost opportunity cost.

The expense necessary to convert to closed-end lending involves changing documents, retraining staff, and reprogramming data processing. More staff may be required because of the increased closed-end lending paperwork. Increasing transaction time and expense is the antithesis of consumer/member benefit and service. Credit unions would be at an immediate competitive disadvantage, placing a huge adverse burden on consumers/members.

The uncertainty of the Board's intent with respect to closed-end lending changes raises another objection. Until we know the amendments contemplated for closed-end lending, it is imprudent to be forced into a closed-end product, when the specifics may change within a short period.

In conclusion, consumers would bear the consequences of the proposed reinterpretation of open-end lending. We strongly urge the Board to reconsider and withdraw the planned changes to staff commentary §226.2(a).

#### **Effective APR §226.7(b)(7)**

The Board is considering two alternatives, one of which eliminates the requirement to disclose the effective APR. We support this alternative.

Our experience tells us that consumer/members do not use the effective APR to make credit decisions. They are confused by it when it differs from the stated APR and staff time is required to resolve uncertainty that did not need to arise. Our members more easily understand the dollar cost involved with a fee rather than translating that into an effective APR.

We find if people shop for a lending plan, the disclosure of APR, fees, grace period, due date, late payments, and minimum payment are sufficient to give consumers appropriate information on which to base their decision. Therefore, we support the Board's alternative to eliminate the effective APR.

**Changes in Consumer's Interest Rate and Other Account Terms §226.9(c)(2)(i)2**

The Board proposes to change the notification period for change of terms from 15 days to 45 days. Consumer groups argue the longer disclosure period would allow consumers to pursue their options.

We believe a 45 day disclosure period will hinder the credit union from reacting quickly to circumstances that are time sensitive.


**Implementation of Rule Changes**

The Board proposes many changes to open-end lending. Some of these are more straightforward than others. Overall, we agree that consumers require effective disclosures. However, we are very concerned about the reinterpretation of multi-featured open-end plans, and we believe this aspect should be retained within the rules.

Further, we believe rule changes should not go into effect for 24 months following the Board's final decision. Lenders affected by the changes require this time to fully prepare and educate their staff and consumers.

Thank you for your time and consideration.

Sincerely,



Carlyn Roy  
Executive Vice President  
Chief Operating Officer

cc: Rick Hein, CEO, OSU Federal Credit Union  
Gene Poitras, President, CUAO  
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